Team Sweden

BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN 2022

A REPORT FROM BUSINESS SWEDEN IN ITALY

KEY CONTRIBUTORS TO THIS REPORT

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FOREWORD

As the world's eighth largest economy and EU's second largest industrial producer, Italy provides a wide range of business opportunities to Swedish companies in various sectors, offering excellent access to service providers, distributors, and suppliers. The country's strategic location and access to key markets in Southern Europe, North Africa and the Middle East, make it an attractive hub for companies with a multimarket footprint. In addition, Italy is the number one receiver of the NextGenerationEU funds, the most extensive stimulus package ever financed in Europe, which is expected to transform the country into a green, digitized, and more resilient economy.

Despite global challenges with the war in Ukraine and Covid-related disruptions that dampen previous above-average growth predictions, in April when this survey was conducted, OECD forecasted the Italian GDP growth to reach +2.8 per cent in 2022, with a stabilisation at +1.9 per cent in 2023.

Team Sweden Italy (the Embassy, Business Sweden, and the Swedish Chamber of Commerce in Milan) has joined forces and carried out a business climate survey among Swedish companies currently present in Italy. The survey was realized during Q2 2022. The purpose of this report is to increase the understanding of Swedish companies' performance in Italy as well as the opportunities and challenges that the Italian market poses. In addition, it will hopefully serve as a point of reference in bilateral trade dialogues between Sweden and Italy.

The results of the Business Climate Survey for Italy 2022 reveal that most of the Swedish companies present in the market perceive the current business climate to be favourable and expect to increase their turnover as well as investments in the coming 12 months. In 2022, several reforms and investments of the National Recovery and Resilience Plan have been initiated, opening ample business opportunities for Swedish companies established or not yet present in the market to provide much needed innovation through sustainable, green, and high-tech solutions.

Finally, we would like to extend our most sincere gratitude to the participating companies and respondents which have contributed to this report.

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EXECUTIVE SUMMARY

COVERAGE

47

Of the invited Swedish companies responded to the survey

BUSINESS AREAS

of the responding Swedish companies

- *7% Consumer*
- *51% Industrial*
- *33% Professional Services*
- *9% Other*

SWEDISH BRAND

62%

Report that the Swedish brand contributes positively to their business

PROFITABILITY

80%

Of respondents reported profitability the past year

BUSINESS CLIMATE

Neutral / very good

Potential in the market

47%

Of the responding companies will increase investments in Italy in the following 12 months, only 7% will reduce investments

ADVANTAGES

***Top 3 advantages** of doing business in Italy:*

1. *Suppliers*
2. *Personal Safety*
3. *Distributers*

CHALLENGES

***Top 3 challenges** of doing business in Italy:*

1. *Digitalisation*
2. *Licenses, permits, approvals*
3. *Corporate taxation*

SUCCESS FACTORS

of Swedish companies

- ✓ *Sales competence*
- ✓ *Cost efficiency*
- ✓ *Staff development*
- ✓ *Service adaptation*

ABOUT THE SURVEY

Respondents representing diverse sectors

Business Sweden carries out a yearly business climate survey that tracks how Swedish companies operating globally perceive the market conditions and the economic prospects of their business, and if and how the views vary across markets, company type and industry. We hope that this report will allow you to explore how companies within different industries are affected by changes in the business climate, and what they expect to see in the future.

Conducted during the second quarter of 2022, this survey seeks to understand the perceptions of economic and market developments and what opportunities and challenges Swedish companies are facing in Italy. This report is presented in four main sections. First off, we elaborate on the economic situation, including current business performance and outlook. We then move on to the Italian market, including the respondents' view on the business climate in general and which factors contribute positively and negatively to their commercial success. The third section covers Swedish companies' operations and perceived success factors in the market, and the last section explores sustainability-related aspects and how they are interpreted among Swedish companies in Italy.

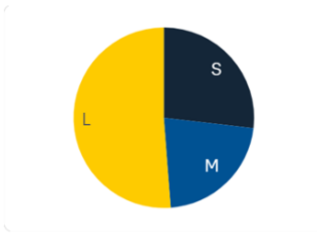
Approximately 120 Swedish companies were invited to participate in the survey to share their sentiments and thoughts on the Italian market, with a total of 45 respondents, resulting in a response rate of 38 per cent.

Out of the respondents, 51 per cent are large companies with a global number of employees of >1,000. 22 per cent of the companies are classified as medium sized with a number of employees between 250-1,000. The remaining 27 per cent are small companies.

The broad range of business areas represented in this report are grouped into three broad categories; professional services, consumer and industrial, where the respondent companies mainly fall within the industrial (51 per cent) or professional services (33 per cent) category.

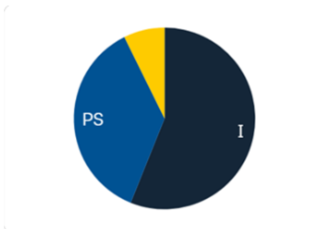
Representatives from "mature companies", classified as companies established in Italy prior to 2001, constitute the largest group of respondents in the 2022 survey. These mature companies make up 61 per cent of the respondents, compared to 27 per cent "experienced companies" (established 2001-2015) and 12 per cent "newcomers" (established after 2015).

SIZE OF COMPANIES



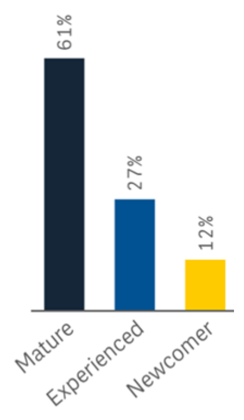
NOTE: Global employees. Large >1000. Medium 250-1000. Small 0-249.

MAIN INDUSTRY



NOTE: 51%Industrial. 33%Professional services.7% Consumer.

AGE OF COMPANIES



NOTE: Mature (-2000). Experienced (2001-2015). Newcomer (2016-)

ECONOMIC OUTLOOK

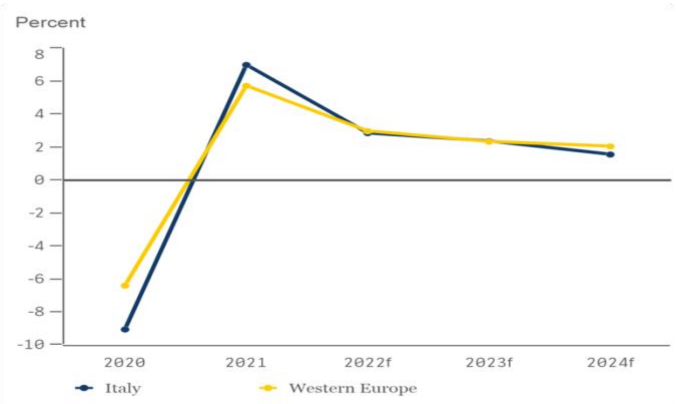
The Italian economy is expected to grow despite challenges

The Italian economy has been recovering steadily from the effects of the pandemic, reaching close to a complete return to pre-pandemic output at the end of 2021, greatly owing to generous fiscal support both to firms and households. However, new global challenges are mounting for Italy and its EU partners. The war in Ukraine and Covid-related disruptions to global supply chains are provoking shortages and soaring food and energy prices, the latter especially aggravating to Italy which depends on Russia for around a quarter of its gas needs. A full disruption of supply in natural gas could shrink the Italian economy considerably, causing shutdowns and layoffs. Additionally, with rising government bond yields, there are also concerns about the country's high public debt.

Despite these challenges, the Italian economy is showing resilience and positive signs. The service sector is going strong, mainly driven by the recovery of tourism. Construction is booming due to abundant tax credits, and the manufacturing sector continues to grow steadily. Employment has rebounded with the successful vaccination campaign and policies to insulate incomes and profits of households and firms. As of June 2022, the unemployment rate was at 8.1 per cent, compared to 9.2 per cent in 2020. However, from a geographical point of view, the country has clear discrepancies between the North and the South, the latter displaying a much higher unemployment rate than the national average.

The Italian GDP is expected to grow by 2.8 per cent in 2022 and 1.9 per cent in 2023. The projected growth is in line with other economies in Western Europe. A major game changer for Italy is the NextGenerationEU (NGEU) program, an unprecedented economic stimulus package in the form of grants and loans, of which Italy is the largest receiver. The plan is expected to boost economic growth in the short as well as the long-term, mitigating the negative effects of the Ukraine-war and the pandemic.

PROJECTED GDP GROWTH IN ITALY COMPARED TO WESTERN EUROPE



SOURCE: Oxford Economics 2022 GDP, real, annual growth. Last update: 20 April 2022. Western Europe in this study consist of The Netherlands, Italy, France, Spain, United Kingdom and Germany.

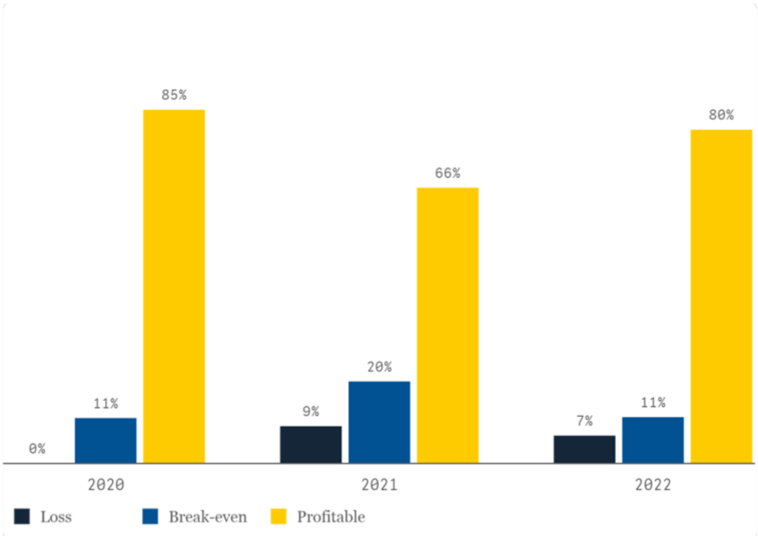
2021 was a profitable year for Swedish companies in Italy

The 2022 Business Climate Survey reveals that 80 per cent of the Swedish companies in Italy experienced profitability in 2021, an increase from 66 per cent in 2020. 11 per cent of the remaining companies reported a break-even and seven per cent a loss. The results show that Italy is now closing in on the pre-pandemic numbers displayed in the Business Climate survey of 2020. The market is also experiencing a better and more profitable 2021 than the Western-EU average of 74 per cent, only Netherlands showcasing a higher number (89 per cent).

From a company size perspective, in 2021, large companies experienced profitability to a larger extent (86 per cent) than medium sized (78 per cent) and small companies (64 per cent). The only group to report a loss in our survey were the small companies who reported a loss of 27 per cent.

From a sector perspective, a slightly lower financial performance was reported by the consumer sector (67 per cent) than the professional services (73 per cent) and industrial sector (87 per cent).

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN ITALY IN THE PAST YEAR?



NOTE: The number of respondents for this question was 45. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy 2022.

> "It is difficult to estimate an organic growth; to understand and keep up with the market while remaining competitive given the insane increase in some primary goods
>
> Survey respondent

Most of the Swedish companies are expecting to increase their turnover in the coming 12 months

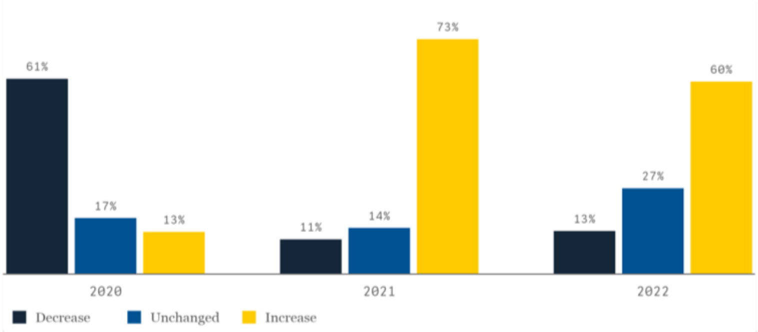
In line with general growth predictions for the market, the Swedish companies in Italy are overall optimistic about the future, with 60 per cent of the survey's respondents expecting to increase their turnover in 2022. However, the number displays a decrease from last year's 73 per cent.

In terms of company size, large and medium sized companies are generally more optimistic (62 per cent and 67 per cent, respectively) when it comes to increased turnover, whereas small companies expect growth to a lesser degree (36 per cent).

From a sector perspective, the most positive outlook is displayed in the industrial sector in which 65 per cent of the respondents expect a higher turnover this year, followed by the professional services sector (53 per cent). None of the companies in the consumer sector predicts growth in 2022, rather, a majority expects an unchanged turnover in the coming twelve months.

Looking at experience in the market, mature companies display the highest expectancy on increased turnover (68 per cent), while the percentage of newcomers and experienced companies anticipating growth is 60 per cent and 30 per cent, respectively.

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN ITALY REGARDING TURNOVER?

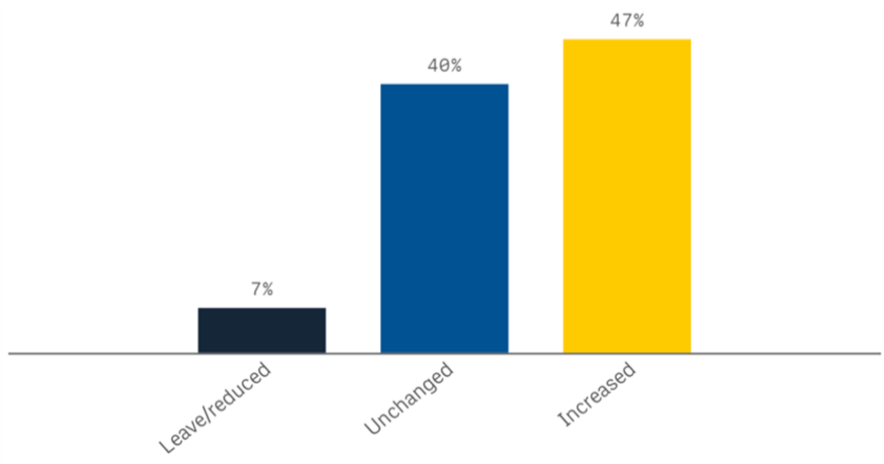


Note: Decrease and increase represent aggregations of slight/significant development changes. "Don't know/Not applicable" responses are included but not shown in figure.
Source: Business Sweden Climate Survey for Swedish Companies in Italy

Companies of all sizes and across all sectors are planning to increase their investments in the market

Despite uncertainties and rising interest rates, investments in Italy are expected to increase in 2022 and in 2023, largely driven by the measures laid out in the Recovery and Resilience Plan. In line with these projections, 47 per cent of the Swedish companies operating in the market plan to increase their investments in Italy in 2022, which also is in line with respondents in other Western European markets. Only minor variations can be noted across sectors or related to company size. Interestingly, small companies are more inclined to increase their investments (55 per cent) than large or medium sized companies (43 per cent and 44 per cent, respectively).

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN ITALY, COMPARED TO THE PAST 12 MONTHS?



NOTE: Reduced and increased represent aggregation of slight/ significant development changes. The number of respondents for this question was 45. “Don’t know / Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy.

THE MARKET

The first Swedish company to enter the Italian market did so in the early 1900s, but most of the Swedish subsidiaries were established in the 1990s when business interest from Sweden to Italy started to increase significantly. The majority of the respondent companies established their operations before or in the beginning of the 2000s. During the economic crisis there was a decrease of new company establishments in Italy but there seems to be a growing trend from 2016 onwards.

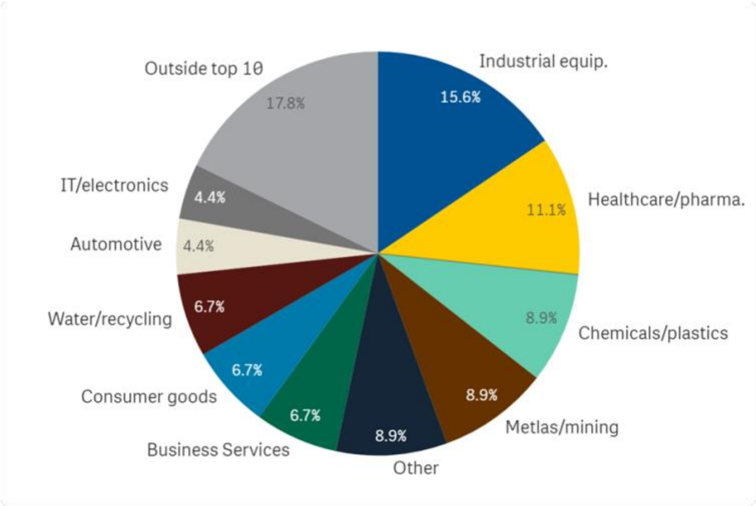
Italy is Sweden's 12th largest trade partner with 2.5 per cent of the total exports destined to Italy. The main export categories from Sweden to Italy are paper, machinery, iron and steel, electric equipment, and vehicles. Most of the Swedish companies are located in Northern Italy, which is the country's economic engine. Several Swedish companies also use Italy as a hub office for other markets in Southern Europe. The South-Eastern part of Europe is the most common region managed by Italian offices, but there are also examples of the Middle East and Northern Africa being managed from Italy, thanks to the country's favourable position in the Mediterranean.

Strong presence of industrial companies

The main industries of the respondent companies are industrial equipment (16 per cent), healthcare and pharmaceuticals (nine per cent), chemicals, plastics and rubber (nine per cent), as well as metals and mining (nine per cent). Some of the other industries include business services (seven per cent), and consumer goods (seven per cent). The industrial categories dominate the market but there is quite a diverse mix of sectors of Swedish companies in the market, mainly operating in the B2B segment.

As Italy is the second largest manufacturing nation in Europe after Germany, the industrial sectors are driving the market and economy to a large extent. Italy's business ecosystem consists mainly of small and medium sized companies, often grouped in clusters, rather than global multinational corporations. The northwest region is well-established with large industries such as machinery, aerospace, naval and automotive. The Central and Northeast regions are instead dominated by small companies with high levels of craftsmanship, specialised in textiles, clothing, furniture and leather products, among others. Germany, the United States, Spain, the UK, Switzerland, and France are Italy's primary export partners.

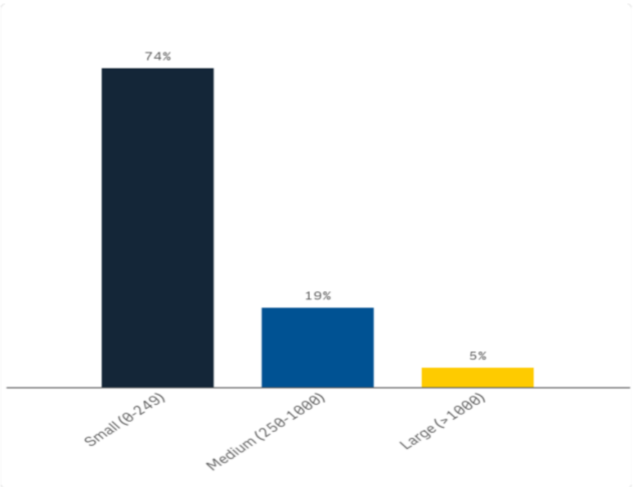
WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN ITALY?



NOTE: The number of respondents for this question was 45 "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy

Even though the Swedish companies established in Italy are large in terms of number of employees globally, the Italian operations are mostly small or medium sized, with 78 per cent of the respondent companies having less than 249 local employees. On the other hand, this is well aligned with the Italian business structure in general, mainly consisting of SME businesses.

PLEASE ESTIMATE: THE LOCAL NUMBER OF EMPLOYEES (FULL-TIME RESOURCES) IN YOUR COMPANY IN 2022



NOTE: The number of respondents for this question was 43. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy.

Business climate in Italy perceived as more favourable in 2022 than previous year

In the last year, the Italian economy has achieved an impressive recovery from the pandemic shock. Prospects are now more positive, motivated by substantial reforms and investments being implemented through The National Recovery and Resilience Plan.

According to a majority of the Swedish companies in Italy, the business climate has become more favourable in 2022 than previous years, with 46 per cent of the respondents perceiving the climate as very good or good, and 46 per cent considering it neutral. Only five per cent perceive the climate as very poor or poor, an improvement from 2021 when 26 per cent perceived it as poor and a significant improvement from 2020 when the rate was 58 per cent.

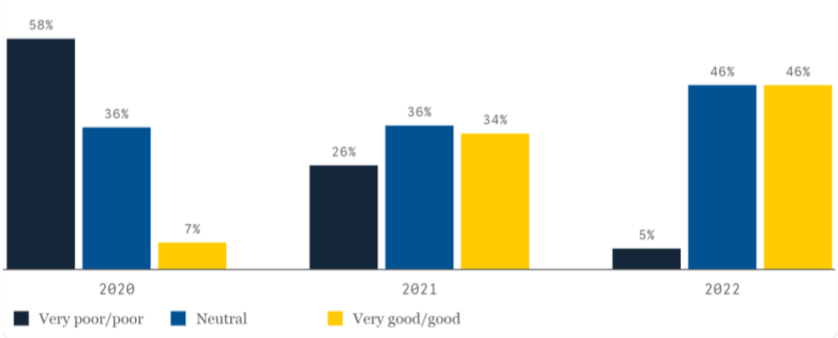
Large companies generally perceive the business climate most favourably (67 per cent) while medium sized and small companies tend to consider it neutral (50 per cent and 55 per cent, respectively).

From a sector perspective, industrial companies regard the business climate as very good/good (47 per cent) or neutral (47 per cent), and companies in the consumer sector adjudge it neutral (67 per cent). Among professional service companies, the most prevalent sentiment is that of a neutral business climate (46 per cent).

When considering the companies' experience in the market, newcomers tend to perceive the business climate as most positive (75 per cent), followed by mature companies (50 per cent). Among experienced companies, a majority consider it to be neutral (70 per cent).

When asked to elaborate on the main challenges when it comes to expanding their business in Italy, apart from mentioning shortage of components and price increases, companies also highlight challenges endemic to the market, such as a lack of *Stability in regulations* and *Efficacy of legal system*, as well as *Recruitment of talents*.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN ITALY?

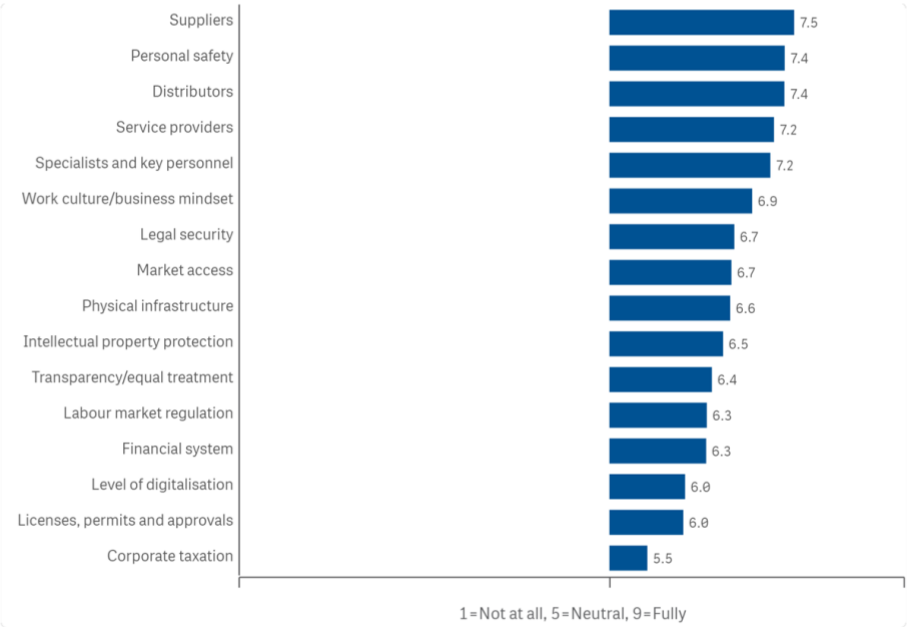


NOTE: The number of respondents for this question was 39. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy

Good access to service providers, distributors and suppliers provides favourable market conditions to Swedish companies in Italy

Italy is considered an attractive market to Swedish companies due to the large size of the market and good access to service providers, distributors, suppliers, as well as key personnel. Moreover, personal safety, work culture, business mindset and physical infrastructure are considered conditions that meet the needs of Swedish companies in the Italian market.

PLEASE RATE FROM 1-9 HOW THE BELOW CONDITIONS MEET THE NEEDS OF YOUR COMPANY'S BUSINESS IN ITALY



NOTE: The number of respondents for this question was 45. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy 2022.

On the other hand, aspects that negatively affect the business of Swedish companies in Italy are the financial system, labour market regulation, permits and approvals, as well as the corporate taxations. Despite the efforts from the government with different reforms trying to facilitate the bureaucratic system and administrative burdens on the business environment, Italy remains a bureaucratic country, which makes it challenging for Swedish companies operating in Italy. Close partnerships with skilled experts on labor law and tax issues are often the solution for firms to handle and facilitate such administrative processes.

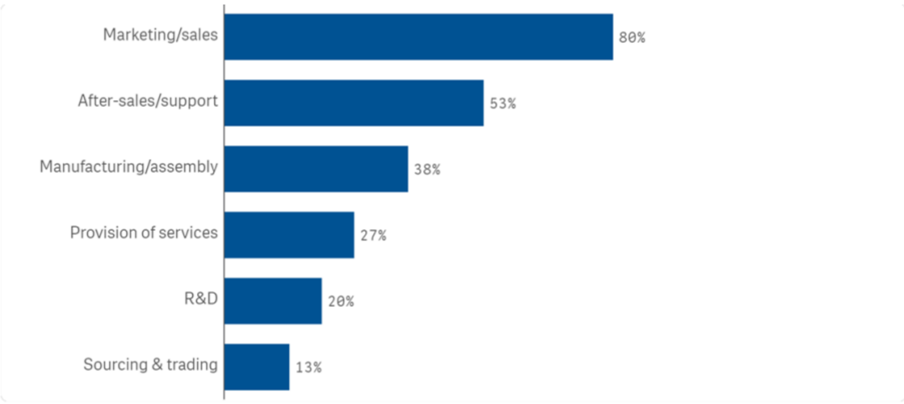
HOW SWEDISH COMPANIES SUCCEED IN ITALY

Local presence and collaboration

Italy has a well-educated and perceptive consumer base as well as a vibrant manufacturing sector with thousands of SME's producing a wide range of high-quality goods across a number of sectors. Moreover, the strategic location and access to many key markets in Southern Europe, North Africa and the Middle East make Italy an attractive hub for companies with a multimarket footprint.

Cross-cultural awareness is vital for establishing business connections, as the Italian business climate remains highly relationship oriented. Consequently, a majority of the Swedish companies present in Italy operate in close collaboration with local partners or establish a local office to manage sales and marketing, distribution and customer service. Marketing, sales (80 per cent) and after-sales (53 per cent) represent the key operations of Swedish companies in Italy, mainly active within the industrial and professional services sectors.

WHAT OPERATIONS DO YOU CARRY OUT IN ITALY?

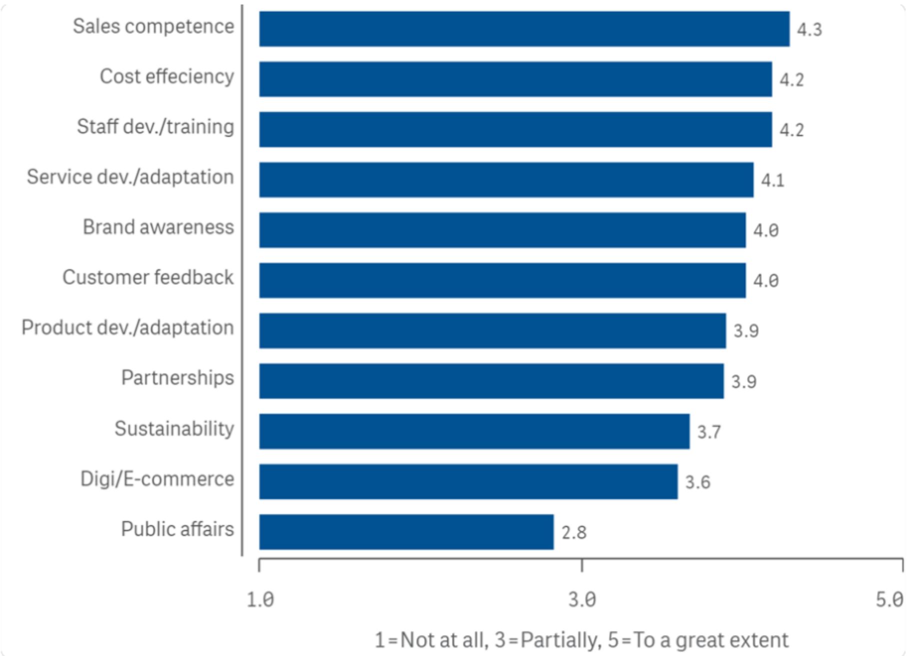


NOTE: The number of respondents for this question was 45. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy.

Sales competence to remain ahead of competition

In line with previous findings which display that Swedish companies are mainly engaging in marketing activities in Italy, it is not surprising that the most important factor for maintaining competitiveness in the market is sales competence. Cost efficiency and Staff development are also considered focus areas in order to maintain competitiveness. Activities related to public affairs, i.e. maintaining relations with the government and governmental authorities has been indicated by our surveyed companies as the least important factor for success in Italy.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN ITALY?

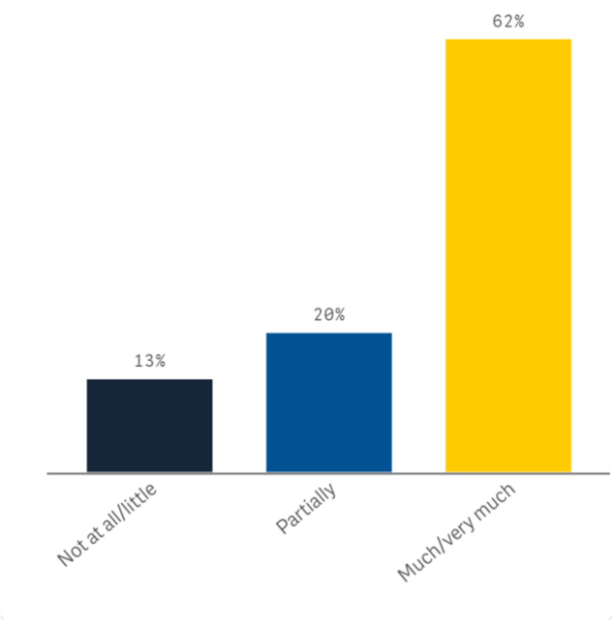


NOTE: The number of respondents for this question was 45.
SOURCE: Business Climate Survey for Swedish Companies in Italy.

“Swedish brand” has its impact

In general, Italians have a highly positive view of Sweden and associates it strongly with quality and innovation, even if the “Swedish brand” is not necessarily connected to only Sweden but Scandinavia in general. The overwhelming majority (62 per cent) of our surveyed companies reports that this brand contributes positively to their business in Italy. This can be observed across all sectors but especially within the industrial sector.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN ITALY?



NOTE: The number of respondents for this question was 45. “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Italy.

ACTING SUSTAINABLY

Increased importance of environmental aspects in purchasing process

The green transition is a fundamental aspect of the National Recovery and Resilience Plan and foresee large investments within circular economy, renewable energy, hydrogen and energy efficiency in the next years. Businesses recognise that the transition to a sustainable, circular economy model represents an opportunity to accelerate the country's economic and social development. The reforms and investments that are being implemented also open plenty of business opportunities for Swedish companies that can offer innovative green solutions.

In 2022, 38 per cent of the Swedish companies in Italy report that their customers to a large extent consider environmental aspects of a product or service in their purchasing decision. The number shows a growing trend of environmental awareness among Italian consumers and businesses, up from 29 per cent in last year's study.

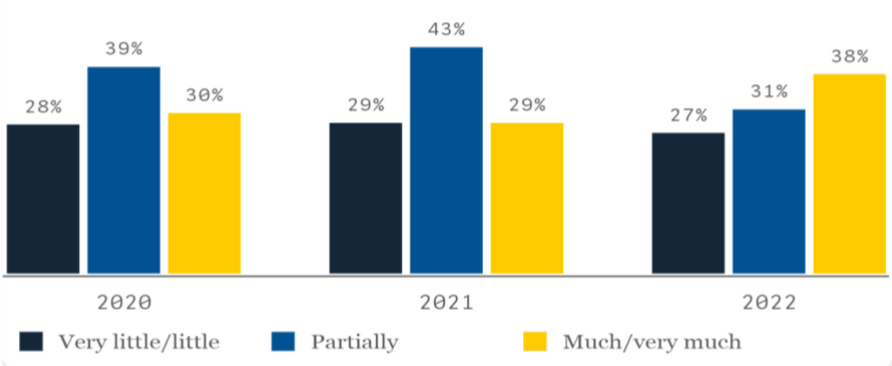
In all the business areas covered, the dominant sentiment is the same; customers consider environmental aspects in their purchases partially or to a large extent. A larger difference in responses can be observed when considering the size of the company; 57 per cent of the large companies indicate that their customers consider these aspects to a greater extent than medium sized (22 per cent) and small companies (18 per cent). At the same time, 29 per cent of the remaining large companies consider environmental aspects to be of very little importance to their customers. A majority of the medium sized (56 per cent) and small companies (45 per cent) consider environmental aspects to be of partial importance in customers' purchasing processes.

From a sector perspective, industrial companies indicate to a larger extent the consideration of environmental aspects (43 per cent) than professional service and consumer companies (67 per cent and 40 per cent, respectively). When it comes to experience in the market, the mature companies tend to indicate the importance to a higher degree (44 per cent) than experienced companies (27 per cent) and newcomers (20 per cent). Among newcomers, 80 per cent of the companies consider environmental aspects as of partial importance to their customers.

Despite increased awareness of environmental issues, several companies highlight the subordinance of environmental aspects to costs in decision making and purchasing processes. Other sustainability related challenges that Swedish companies face in Italy are the lack of infrastructure for electric cars and renewable energy, sentiments that underscore the country's need to speed up the transition towards a green economy.

> “ **The main sustainability challenge right now in Italy is the lack of infrastructure for electric cars and renewable energies**
>
> **Survey respondent**

In your view, to what extent do customers in your industry in Italy consider environmental aspects of a product or service in their purchasing decision?

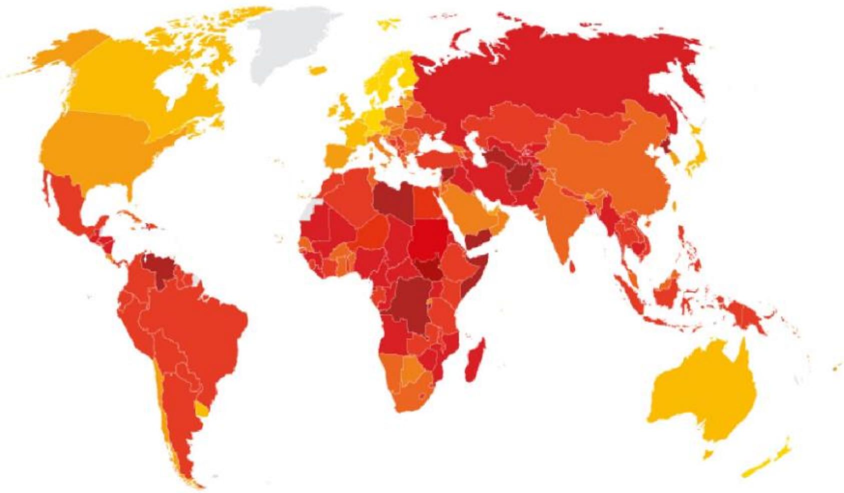


NOTE: The number of respondents for this question was 45.
SOURCE: Business Climate Survey for Swedish Companies in Italy.

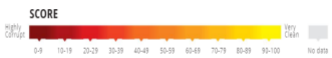
Corruption index improving since 2012 but still lags neighbouring countries

Italy has seen an improvement in terms of its ranking in the corruption perception index (CPI) in the past years. Since 2012 Italy has seen an increase by 14 points in the index, and now ranks 42nd in the world with a score of 56/100 in 2021. Despite the improving position in the ranking, Italy lags behind its neighbours in Southern Europe; France (rank 22), Portugal (rank 32) and Spain (34), indicating that corruption is still an important consideration for companies doing business in Italy. There are however major regional and sectoral differences, with a higher concentration of corruption cases in the South, and public administration, healthcare and politics representing the main sectors impacted.

CORRUPTION PERCEPTION INDEX 2021



SOURCE: Transparency International.



MOMENTUM FOR STRUCTURAL TRANSFORMATION - AND SWEDISH SOLUTIONS

The Italian National Recovery and Resilience Plan (PNRR), part of the €750 billion NGEU program in place from 2021 to 2026, provides for investments and reforms to a value of €191.5 billion. With the additional €30.6 billion from the Complementary Fund and the €26 billion from the Development and Cohesion Fund, the total amount of resources to be spent sums up to €248 billion.

The Plan, developed around the three strategic axes ***digitalisation and innovation, ecological transition,*** and ***social inclusion***, aims not only at repairing the economic and social damages of the pandemic crisis, but also to eliminate structural weaknesses and accelerate the green and digital transition of the Italian economy.

In 2022, several reforms and investments of the Plan have been initiated, opening ample business opportunities for Swedish companies established or not yet present in the market to provide much needed innovation through sustainable, green, high-tech solutions in various sectors.

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